

Service Date: July 7, 1981

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of the Application of)
the CITY OF GLASGOW to increase water)
rates and to modify rules and regula-)
tions.)
_____)

DOCKET NO. 81.2.23
ORDER NO. 4826

APPEARANCES

FOR THE APPLICANT:

John C. Doubek. Attorney at Law, 314 Fuller Avenue, Helena, Montana 59601

FOR THE PROTESTANTS:

John C. Allen, Staff Attorney, Montana Consumer Council, 34 West Sixth Avenue,
Helena, Montana 59601

FOR THE COMMISSION:

Robert F. W. Smith, Staff Attorney, 1227 11th Avenue, Helena, Montana 59601

BEFORE:

Gordon E. Bollinger, Hearing Examiner, Chairman

The Examiner, having taken evidence and being fully advised in the premises, makes the following findings, conclusions and order:

FINDINGS OF FACT

1. On February 23, 1981 the Montana Public Service Commission received the Application of the City of Glasgow (City or Applicant) for Commission approval of increased water rates. The City sought to increase water rates resulting in an annual revenue increase of \$73,250. Pursuant to notice, a public hearing was held on May 12, 1981, in Glasgow.

2. At the public hearing the Applicant presented the following four witnesses:

Jacob Schock, Water Subscriber
Ramona Tow, City Clerk
James Smirca, Mayor
Tom Thomas, Consulting Engineer

These witnesses testified relative to: the increases experienced in operation and maintenance expense, the requirements of the City's bond ordinance, the separation of expenses between the water and sewer departments and the need for funding of a depreciation account.

3. The Montana Consumer Counsel presented the testimony of three public witnesses:

Jacob Schock, Water Subscriber
Jim Heinz, Water Subscriber
Jim Christenson, Water Subscriber

The testimony of these witnesses generally centered around the City's management of funds relative to capital improvements to the system and engaging consulting engineers to determine the systems inadequacies.

4. The fiscal year ending June 30, 1980 test year is found by the Commission to be a reasonable period within which to measure Applicant's utility revenues and expenses for the purpose of determining a fair and reasonable level of rates for water service.

5. The City's bond ordinance requires that the City maintain the expenses for the water and sewer departments in a joint account. Therefore to present a case before this Commission it was necessary for the City to separate expenses that were common to both utilities and develop an operating statement for each so that the adequacy of the present rates could be determined. The City in developing the operating statements assigned direct costs to the responsible utility and allocated the indirect costs (common) utilizing accounting records and the City's knowledge of the operation of the water and sewer systems. The Commission accepts the method employed by the City in determining the operating expenses for the water and sewer

utility. The Commission would recommend that in the future the City maintain the expenses for the water and sewer departments in separate accounts.

6. The test year in this case is the fiscal year ending June 30, 1980 adjusted for annual inflation. The Commission finds the test year adjusted for inflation to be a reasonable period within which to measure the expenses for the purpose of determining a fair and reasonable level of rates and accepts the City's projection that operating expenses will be \$146,500.

7. The City in this case has outstanding revenue bonds and the proceeds from this bond issue were used for capital improvements to the sewer and water systems; therefore, it is necessary to allocate the debt service between the utilities. The City allocated debt service based upon the amount of money that was utilized by each utility for the capital improvements. Total proceeds from the bond issue was \$605,000 of which \$480,000 went for construction of capital improvements to the water system causing the water utility to be responsible for 79.4% of the debt service. Total debt service required in this case, including the debt coverage is \$69,221 making the water utility responsible for contributing \$54,961 toward payment of that expense.

8. The City's water department also has an additional debt obligation in the amount of \$50,000 that was incurred as the result of a short-fall in funds in completing an EDA project for the water department. The City has financed this obligation with a 5 year loan with the local bank. The annual principal and interest payment on this loan is approximately \$14,700.

9. The City in this case has also requested approval of the funding of a depreciation account. The funds accumulated in the depreciation account would be utilized to make recurring annual capital improvements to the water system. Again because of the City's consolidation of expense accounts it is necessary to allocate between the water and sewer system. The City allocated the depreciation expense based upon the percentage relationship of the total assets of the two utilities. Based upon the books and records of the two utilities the combined depreciated value of the two systems is \$5,138,400 with the \$3,455,000 being the depreciated value of the water utility. The water utilities assets represent 67.3% of the total assets of the two utilities. The total amount of depreciation requested in this docket \$105,075, which appears to be reasonable in

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view of the total assets of the utilities, causing the water utility to be responsible for contributing \$70,675 toward the funding of the depreciation account.

10. The Commission finds the following to be the reasonable expenses of the water utility:

| | |
|-------------------------|---------------|
| Operation & Maintenance | \$146,500 |
| Loan Re-payment | 14,700 |
| Debt Service | 55,000 |
| Depreciation | <u>70,675</u> |
| Revenue Requirement | \$286,875 |

11. The City in this case will find it necessary to generate \$286,875 from water rates. The rates as applied for by the City in this case represent a uniform 35% increase to all customer classifications and will generate approximately \$285,850 in annual revenues. The Commission finds the rates as applied for by the City to be reasonable.

12. At the close of the hearing and subsequently in writing, all parties agreed that the Commission could forego the Proposed Order/Exceptions process to allow for a prompter disposition of the case.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this Docket (MCA 69-3-101, 69-3-302).

2. The Commission afforded all interested persons proper notice of these proceedings (MCA 2-4-601).

3. Service Rules of municipal utilities are no longer a matter of Commission jurisdiction (Ch. 607, L. 1981).

4. A Final Order may properly issue in this Docket (MCA 2-4-622).

5. The rates approved herein are reasonable and just (MCA 69-3-201).

ORDER

NOW THEREFORE, at a session of the Public Service Commission, Department of Public Service Regulation of the State of Montana, held in its offices at 1227 11th Avenue, Helena, Montana, on the 6th day of July, 1981, there being present a quorum of commissioners, there came regularly before the Commission for final action the matters and things in Docket No. 81.2.23, and the Commission being fully advised in the premises;

IT IS ORDERED by the Commission that the application of the City of Glasgow to increase water rates and to modify rules and regulations IS HEREBY APPROVED.

IT IS FURTHER ORDERED that a full, true and correct copy of this order be sent forthwith by first class United States mail to all appearances herein.

The rates approved herein are effective for surfaces rendered on and after July 6, 1981.

THE FOREGOING ORDER was adopted by the Department of Public Service Regulation of the State of Montana, Public Service Commission, IN OPEN SESSION at Helena, Montana, this 6th day of July, 1981, by vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

GORDON E. BOLLINGER, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA: and Commission Rules of Practice and Procedure, esp. 38.2.4806 ARM.